

## Adaptive and Reflexive Governance: The Limits of Organized Decentralization

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## **Adaptive and Reflexive Governance: The Limits of Organized Decentralization**

**ABSTRACT** ■ How robust is coordinated decentralization in socio-economic governance, especially in wage bargaining, when national economies are torn between internationalization on the one hand and decentralization or increased internal diversity on the other? How should the national state influence the behaviour of trade unions and employers' organizations? What constitutes an effective public policy towards industrial relations? Are there any general design principles for such policies? These are the questions that we seek to answer in this article, mainly using the Dutch consultation economy as our example.

### **Introduction**

Until recently, the Dutch socio-economic governance system (the 'consultation economy') received much international praise, but doubts now prevail. The economy suffered badly during the recent recession and unemployment rose very fast, though it is still at a relatively low level by international standards. The Dutch themselves have again started soul-searching, as they did during downturns in the early years of the 1980s and 1990s. There is disagreement about how responsibilities are best divided between the government and employers and trade unions — the so-called 'social partners'. Accusations that the consultation economy delays decision-making and erodes the 'primacy of politics' have again surfaced. Lastly, there are different views on how far the government should devolve its tasks to market organizations and how it can still retain responsibility and be held accountable in vital areas of public policy and public services. As a result of these disagreements, policy approaches have shifted with every twist and turn of the political and economic cycle, particularly with respect to social security, active labour market policy

and the work–life balance. The result is that institutional arrangements and policies frequently change, leading to doubts about the trustworthiness of the government and the legal certainty of its measures.

The Netherlands is a test case for two major issue developments in socio-economic governance: the limits of ‘organized decentralization’ and ‘state weakness’. Trends in industrial relations and, more particularly, in wage bargaining during the past two decades can be described as a prime example of ‘organized decentralization’ (Traxler, 1995). Punctuated by two major central agreements, Wassenaar in 1982 and the ‘New Course’ in 1993, responsibility for wage setting was devolved, first, to sectors and some major multi-plant corporations behaving like sectors and, second, to firms within sectors. These agreements allowed the government to retreat and the central organizations to define policy agendas rather than outcomes (Van der Meer, 2004; Visser, 1998). Central coordination was retained, but gradually loosened so that lower-level bargainers and sometimes even individual workers were offered a menu from which to choose their options. Explicitly centralizing elements such as the price indexation of wages or the linkage of public-sector wages to private-sector agreements were removed. Consolidation of this process through formal and informal coordination within and between the central organizations (not always at national level or in the public eye) and the good employment results attributed to the resulting policy of wage moderation served to keep the government out of wage setting. Thus, a *de facto* modicum of *Tarifautonomie* was gained by the Dutch social partners, reversing the situation which had existed since 1945.

In recent years, the question has arisen as to whether the government needs more control over wage determination in order to achieve social policy reform and cost containment with an ageing workforce — also an issue in other European countries, especially after Economic and Monetary Union (Calmfors et al., 2001; Hassel, 2003). Has organized decentralization run its course? Do recent conflicts, only resolved by a series of last-minute tripartite ‘emergency’ pacts (in 2002, 2003 and 2004) entail a new mode of governance? These are the questions that we address in this article. We begin with a brief summary of the role of the government in Dutch politics, followed by an evaluation of the workings and functions of the consultation economy. The middle section develops a conceptual framework for steering and governance, in particular with regard to the role of the state and public policy. In the final section, we apply this to Dutch industrial relations and consider some more general implications.

## The Role of the Government in the Dutch Consultation Economy

In the traditional Dutch neo-corporatist system, the government is willing 'to share public space' (Crouch, 1993) with organized interest groups in preparing and implementing public policy. But what is the optimal division of responsibilities between central and local government and between the government, social partners and market organizations? Those who have debated this issue (parliament, the cabinet, political parties, the Social and Economic Council (SER), the Social and Cultural Planning Office (SCP) and the Netherlands Scientific Council for Government Policy (WRR)) tend to agree that the government should be a reluctant interventionist and that interventions must be motivated by a well-defined public interest.

As agenda-setter, legislator, employer and law enforcer, the government evidently plays a key role in the system of industrial relations in the Netherlands. In 2000, questioned by a former union leader in the upper house, the Minister of Social Affairs and Employment lamely replied that the division of responsibilities between government, social partners and related advisory bodies varies from one policy issue to the next. Comparing recent legislation, his conclusion was that 'there is no uniform, strictly defined, consistently reasoned demarcation between the parties' responsibilities'. In an official memorandum presented to Parliament in 2001, the cabinet admitted that it had no criteria for when or how to intervene, conceding that governments should always be obliged to offer good reasons, 'not only to Parliament, but also to the social partners'. Rather than list specific criteria, the memorandum ended with three questions, as follows. Is it in the public interest to achieve a certain objective? Does serving this public interest require government intervention? What form should such intervention take? This reflects disagreement about the potential role of the state in industrial relations after two decades of gradual disengagement and uncertainty.

In the international literature, state 'weakness', understood as a lack of prerogative or capacity to intervene in industrial relations, economy or society, has sometimes been understood as an advantage, creating the incentives for private interest groups such as unions and employers' organizations to take responsibility and, provided they are properly organized, to adopt 'public-regarding' policies; the successes of the 'semi-sovereign state' of (West) Germany were portrayed in this light (Katzenstein, 1987). But in a recent review of this thesis, Streeck (2003) argues that when structural changes in the economy and internationalization require major adjustments that tend to harm at least some of the interests of well-organized groups, 'state weakness' has become a liability. Since Dutch wage bargaining has moved in the German direction, though with

much less well entrenched trade unions, we may well ask whether the self-imposed weakness of the Dutch state in industrial relations (the outcome of two decades of organized decentralization and gradual state withdrawal supported by all major political parties) has become a liability. Have we reached the limits of organized decentralization?

In the Dutch economy, coordination between the government and the social partners in industrial relations is commonly understood to have at least three functions. In the first place, it is supposed to improve 'macro-flexibility', allowing wages to respond to the changing conditions in the (international) economy in order to prevent sharp rises in prices and unemployment. During the past 15 years, the verdict on Dutch corporatism has been rather positive, especially when judged by the lowering of the 'equilibrium rate' of unemployment (Hartog, 1998; Van Ours, 2003). However, at particular points in time (for instance, during the European Monetary System currency crisis of the early 1990s and again after 11 September 2001) critics have argued that the responses of wage bargainers have been too slow. These critics are typically torn between advocating further decentralization (to firm level) and resolute action by the state.

The second function of the governance system is to prepare social and economic legislation and assist in regulation. The government, for example, regularly consults the tripartite SER and the bipartite Labour Foundation (StAr) or the Council for Work and Income, as well as various other bodies, when preparing legislation. The SER is involved in some 40 major pieces of advice each year, prepared in innumerable committees with the involvement of the social partners, civil servants and, mostly in the chair, council members appointed by the crown.

Third, the parties alert one another to socio-economic trends and work together to interpret and evaluate such trends in order to define common problems and joint policy responses. Based on a highly institutionalized structure for policy inputs, in which the Central Statistical Office and the government's forecasting institute (Centraal Planbureau) play a key role, this approach favours an expert-oriented, interest-neutral, problem-solving approach. The role carved out for the social partners is to redefine problems and solutions in a way that is acceptable to them and relay these definitions and solutions to their members, thus creating improved conditions for implementation.

## **Governance and Steering: Capacity and Need**

Let us take a step back and discuss some major principles of governance and steering. Where should the state come in and how? Is it possible to derive some general principles? A policy or intervention is called

effective when it achieves a desired change in a situation considered to be a problem. Mayntz (1995) reminds us that programme designs for effective policies should consider the interaction between the target population, its self-organizing capacities and the problem at hand. The state or public actor is rarely faced with a non-organized mass of citizens; even where it has the legal power to raise taxes or impose sanctions, its creative powers are quite limited, and will usually depend on cooperation with powerful private actors and interest groups.

‘Governance’ is a relatively new concept denoting non-hierarchical elements and the participation of private interests and actors in the formulation and implementation of public policies (Rhodes, 1997). According to a well-known definition, ‘governance implies that private actors are involved in decision-making in order to provide collective goods and that non-hierarchical means of guidance are employed’ (Héritier, 2002: 3). This definition applies to industrial relations and most socio-economic policy-making. Neo-corporatism is one particular type, with highly structured access to public policy, regular (non-hierarchical) patterns of interaction and rather monopolistic and in any case, broadly representative interest organizations (Schmitter and Lehmbruch, 1979).

Mayntz (2004) has pointed out that the older concept of ‘steering’ focused on the state as actor, whereas ‘governance’ is more about the institutions of private–public coordination. In the ‘steering’ literature, the key question involves the tension between state capacity and the need for intervention. Theories of steering and governance tend to assume that actors are interested in and that governance institutions are designed for solving collective problems. In her view, such a ‘selective knowledge-interest in problem-solving and its conditions may be warranted, but only to the extent that one does not *by definition* assume that politics is always about resolving collective problems and not — also or primarily — about conquering and maintaining power’ (Mayntz, 2004: 7–8). Steering theories risk neglecting power, whereas governance theories find it difficult to avoid the traps of functionalism.

In discussing particular design principles of coordination and public policy intervention, it is necessary to keep these warnings in mind. As in the Dutch debate over the ‘primacy’ of markets, society or politics, choices for policy design are often ideologically motivated. The neo-liberal market view, for instance, aims to minimize state intervention and to constrain private actors as little and state agencies as much as possible, because it trusts the one and distrusts the other. From this follows a preference for regulated private production over public provision, for incentives over regulation and for financial sanctions over subsidies (Scharpf, 1979). In the Netherlands, such preferences gained support during the 1990s in all political parties.

Drawing on Visser and Hemerijck (1997: 72), we hypothesize that

effective socio-economic governance of the neo-corporatist type requires a high degree of societal self-organization, characterized by broadly encompassing and concentrated interest groups which are in some power balance and a high degree of institutional integration or co-authorship with the state. This can be defined as a state which is powerful and self-assured enough to accept and recognize powerful social groups as co-decision-makers. When needed, the public actor is capable of accepting good advice or imposing restraint. Where the state is weak and interest groups strong, the state tends to be 'colonized' and corporatism will be at the expense of outsiders; where interest groups are weak or fragmented and the state is strong, the state will impose its solutions and take away incentives for self-organization; where both are weak, markets rule freely at the expense of the weak.

Mayntz and Scharpf (1995), who use a slightly different categorization, describe three interaction patterns between 'state' and 'society'. In the first, each actor, while anticipating the actions of others and reacting to their policies, follows its own course in the pursuit of its own interests, restrained only by its own power resources relative to others. Under such conditions of 'strategic interdependence', stable outcomes are unlikely. In Dutch industrial relations, this was the characteristic situation of the 1970s, at the time dubbed the 'transaction economy' (Reynaerts, 1985): each actor tried to make the best deal for itself even when making things worse for all. In the second pattern, the actors accept that binding decisions may be made in the public arena, provided that each actor has sufficient opportunities to influence public decision-making and final decisions are based on broad and inclusive coalitions rather than determined by narrow political majorities or particular ideological preferences. This is the state-directed, hierarchical (if not paternalist) corporatist model that characterized Dutch industrial relations and wage setting in the first 15 years after the Second World War (Windmuller, 1969). In the third pattern, private and public actors develop a common understanding of their situation, usually in the face of an uncommon challenge (for example, a crisis or Economic and Monetary Union), and adopt joint problem definitions and policies. Although rare, this outcome is according to Mayntz and Scharpf (1995: 27), sometimes observed under the conditions of societal corporatism, a state which possesses credible sanctions and a jointly understood challenge. It has been argued that after 1982 and throughout the 1990s, Dutch industrial relations came close to this pattern (Visser and Hemerijck, 1997).

We argue that the capacity for state intervention *and* macro-corporatist coordination has diminished. This reflects globalization, the loss of autonomy for Europe and the liberal, market-making bias in the European integration process since the 1980s; and growing individualization, diversity and complexity of economy and society. Lower rates of

organization, especially on the side of the unions, are matched by more diversity among the interests they represent, and a stronger tendency to express and recognize such diversity, also and especially among employers (Streeck and Visser, 2005). The failure of the experiments with communist command economies and the ascent of neo-liberalism as the dominant philosophy have further weakened political aspirations ‘to steer society’ as well as the legitimacy of such aspirations.

Acknowledging the weakened capacity of state and societal actors, we suggest some pragmatic criteria for coordination and intervention. Policy coordination may help prevent undesirable outcomes, for example unemployment, excessive income inequality or widespread poverty, and may help create conditions for the production of public goods which markets fail to deliver, for example training and education. We propose two additional criteria for defining the nature of state intervention: the difficulty of the issue and the (perceived) risks for outsiders (those without decision rights, for instance future generations or the unorganized).

Many issues are multifaceted and complex in nature, and their definition may change over time or depend on conflicting interests. It is a relatively simple issue that motorists exceed the speed limit and endanger themselves and others; a more complex problem is that the increasing volume of traffic creates congestion and pollution. The latter requires accommodation of a much larger set of interests and knowledge of a much larger number of variables, ranging from the prediction of levels and type of economic growth and the daily and weekly patterns of division of work, care and leisure to the estimation of individual needs and preferences regarding mobility. Policy-making approaches must vary accordingly.

If an issue is well understood and can be described more or less precisely, the government can help by bringing the relevant parties together to seek a solution, assure that it is not at the expense of those not represented, and help coordinate the policies of private actors in attaining these solutions, for instance by providing incentives or sanctions. Another role for the government may be to set clear targets and substantive goals. If the nature of the issue is not fully understood, and if the government and other main parties therefore have major difficulties obtaining the information they need, decision-making is more complex and depends on a learning process. It may be desirable to bring in new expertise, try out small-scale, intermediate solutions and engage in local experiments. Learning should be reflexive, question existing understanding and objectives and encourage participation. Here, the government’s role is defined not in substantive, but in procedural terms: in helping to define tasks, specify and monitor timetables and procedures and in guaranteeing access.

The second consideration for policy coordination concerns the likely



external effects of unconstrained actor choices. Where the interests of outsiders, who cannot represent or defend themselves, are affected in a major way, there is a much stronger reason for state intervention than where such negative external effects are absent or minor.

### Four Types of Steering

Applying these two distinctions we draw a simple two-by-two matrix (see Figure 1). We illustrate this with references to European and national policies and then use it as a baseline for discussing the limits of decentralized coordination and state intervention in industrial relations.

The north-west quadrant defines a situation in which the issues are relatively well defined, but the risks of policy failure are considerable, with large potential damage to outsiders. Here, we argue, the emphasis should be on ‘steering by objectives’ or *adaptive governance*, with a clear role for the government to set targets, provide guarantees that a solution will be found and impose sanctions if private or lower-level actors fail to act. If solutions have to be found through negotiations, as is likely in the domain of industrial relations, it is essential for the government to cast a ‘shadow of hierarchy’ (Scharpf, 1993), for instance by threatening sanctions or withholding services, goods or legitimacy. In the national context, one might think of the role of the state in wage bargaining, even in a relatively decentralized setting, at least when existing solutions and coordination patterns are challenged by new (international) developments. In the context of the EU, one might think of the Stability and Growth Pact, which imposes limitations on the fiscal policy of member states. As this example shows, however, hierarchical controls and the threat of sanctions are not necessarily effective or credible.

In the north-east quadrant, the risks for outsiders are seen to be large, but the issues and solutions are complex and not well understood. Steering takes place best via comparison, by applying benchmarking techniques and statistical ranking of cases. In the national context, one

**FIGURE 1. Policy Alternatives, Issues and External Effects**

	<i>Issue and general solution more or less understood</i>	<i>Issue and general solution complex and not understood</i>
<i>Major risk to outsiders</i>	Steering by objectives ( <i>adaptive governance</i> )	Steering by comparison ( <i>open coordination</i> )
<i>Minor risk to outsiders</i>	No steering ( <i>subsidiarity</i> )	Steering by procedure ( <i>reflexive governance</i> )

can think of policy making and policy coordination in the domain of quality criteria, ISO norms and the work environment, where local conditions call for different solutions, but where people require protection against their own mistakes and those of others. An international example is the EU Lisbon agenda, which requires policies for a sustainable path to growth, productivity, innovation and employment. Also here, *steering by comparison* seems called for, but at the same time the state, or in this case the Treaty and the Commission as its guardian, must set clear targets and timetables, define rules for participation and provide guarantees for outsiders. The open method of coordination (OMC) is a case in point: it may be a solution for mutual learning and joint target-setting, but only when strengthened by legislation and political commitment, which in the EU context includes the application of the 'Community Method'.

When such procedural constraints are more strictly applied, we move to a situation of *reflexive governance*, which is located in the south-east quadrant of Figure 1. Here we deal again with complexity and lack of understanding or information, but risks to outsiders tend to be small. In this case, the role of the state may be smaller and concentrate on procedures for access, participation and quality of decision-making. We call this situation 'steering by procedure', reflecting the legal distinction between substantive and procedural law (Teubner, 1983). Reflexive rather than adaptive learning, about means *and* ends, should be encouraged, in part by widening participation. This can, for example, be realized through decentralization and integration of labour market and social security policies within experimental settings at local level, in order to study the effectiveness of reintegration policies for several target groups. Other policy examples, in both European and national contexts, may be working-hours arrangements or health and safety, which are likely to require different solutions depending on a host of individual, household, group and organizational conditions. As the risks to outsiders or to the community are small, there is only need for minimum rules against (self-) exploitation provided that decision-taking rights are guaranteed.

We can compare the difference between substantive and procedural regulation with the distinction between mandatory, semi-mandatory and 'semi-semi-mandatory' law applied in Dutch social and labour law. In the first case, the legislator lays down clear standards and offers individual employers and employees, or their representatives, no room for deviation or negotiation. In the second (*drie-kwart bindend recht*), the legislator provides some scope for deviation of the standard through collective bargaining, with derogations permitted under conditions defined in the collective agreement and hence under control of the negotiating union or employer organization. In the third case (*vijf-achtste bindend recht*), the legislator extends the scope for deviation to the enterprise level and

beyond the control of unions or employers' associations: if a subject is not covered in a collective agreement, individual employers and works councils, or other workplace representatives, may make their own arrangements.

An example at European level can be found in the 1994 European Works Council Directive, which applied 'fall-back' or 'last-resort' provisions, stipulating a set of minimum provisions for a multinational company which failed to agree arrangements on employee information and consultation. Any arrangement also had to meet standards defined in the Directive and be approved by employee representatives who were deemed to have a mandate and in a position to bargain freely.

In the south-west quadrant, risks are small and the issues well defined and understood. There would seem no reason for government intervention or coordination at higher levels. In other words, the conditions for 'subsidiarity' tend to obtain. In the EU context, this means that member states are free to design and implement policies as they see fit; in the national context, such a rule might apply to firms, unions, particular groups or even individuals. A typical industrial relations example might be profit-sharing.

## **The Conflict over Modes of Governance in Dutch Industrial Relations**

In the remainder of this article, we illustrate the four policy alternatives with examples from Dutch industrial relations.

When a substantial policy problem needs to be solved and general support for a possible solution appears, the government can invite social actors to discuss the means that need to be employed: *steering by objectives*. This occurred in Dutch industrial relations in the aftermath of the economic boom period of the 1990s: the competitive advantage in terms of unit labour costs appeared to be eroded and the problem of an ageing workforce and the need for retrenchment of public finance came to the top of the political agenda.

What adaptive instruments could be used? After the 1982 Wassenaar agreement, the Dutch government abstained from direct intervention in wage determination by management and labour. Admittedly, the 1987 Wage Act permitted government intervention in the event of 'one or more accumulating economic shocks', but this was never applied. Another instrument, the 1992 Adjustment of Minimum Wages Act, linked statutory minimum wages and benefits to the ratio between benefit recipients (including pensioners) and those in employment; if the ratio exceeds 84.6 percent, the government may suspend adjustment in full or in part, as happened between 1992 and the 1995 (Visser and

Hemerijck, 1997). In 2003, when the ratio had improved significantly because of increased employment, the government wanted to change this to 70 percent in order to curtail minimum wage rises and benefits. The unions cried foul and had the law on their side. So, none of these instruments was used for an adaptive response.

Lacking proper tools for adaptive governance and being generally unprepared, the first and second Balkenende cabinets made last-minute coercive interventions in 2003 and 2004, announcing major cutbacks in social protection, in unemployment, sickness and disability insurance and a curtailment of early-retirement pensions, while at the same time lowering public spending on labour market policy, employment subsidies and health. It offered to soften some of these measures if unions were prepared to reduce their wage demands, preferably to zero. This put employers, who endorsed most of the government's reform measures, in the back seat. In 2002 and 2003, tripartite agreements were reached, curbing wage demands in return for moderation of the government measures. This explicit form of adaptive steering, however, failed in May 2004 after negotiations broke down, mainly over the reform of disability schemes and early-retirement pensions, especially the government's insistence that individual employees should be allowed an 'opt out' from collective schemes through individual 'life-course' savings schemes. When the unions announced that they were abandoning wage moderation, the government retaliated by announcing that it would no longer give collective agreements binding effect if they increased wages or went against government policy. The successful and united mobilization of the unions, culminating in the second-largest demonstration since the Second World War, convinced the government that nothing could be gained from putting the unions in a corner. Another tripartite pact was concluded, with major concessions from the government in exchange for 'very restrained' wage increases in 2005.

This story shows the limits of state intervention when decision-making is decentralized, even individualized, and collective bargaining takes place on the basis of strong and sometimes rigid procedures and norms. These make it difficult to respond expediently to new situations, and governments have few instruments to change behaviour other than by issuing big threats, which are bound to make things worse before they get better if they do. This deepens rather than smoothes the cyclical swings in the political economy of neo-corporatism. In short, the system encourages institutional drift (in good times) and emergency measures (in bad times). An alternative, in our view, might have been the joint adoption and annual revision of thresholds for (higher) employment participation and (lower) welfare dependency as beacons for wage bargaining, as intended in the 1992 law on minimum-wage adjustment. Another creative response might have been found in the creation of buffers in social

insurance and pension funds during good times, following the well-known Finnish example (Calmfors et al., 2001). But the temptations of tax reduction and lower premiums proved too strong for political parties, unions and employers, saddling the economy with impoverished governance and the need to play safe when it is least helpful.

When a problem and its possible solutions are more or less known and the external effects are small, the government can *abstain from steering*. Profit-sharing is an issue that prima facie meets this criterion; any company can decide about the economic participation of its employees in the ownership of the company, in financial shares, obligations, bonuses and benefits. At this point, no government steering is necessary. In corporatist countries, however, the distribution of benefits and direct and indirect wages is constrained by strong norms of 'responsible wage-setting' and 'equality', which are defended by trade unions and political parties. In the Netherlands, such hallmarks are always mentioned in the policy documents of the StAr.

When the economy opens up and international companies enter national markets, the principles for the rewarding of international management start to shift. The new orthodoxy predicts that top management is to be recruited in international networks, is facing new targets, responsibilities and associated risks, which implies that management's compensation should be upgraded to international standards. In the economic boom of the late 1990s, and in line with the Dutch process of wage differentiation that emerged after the 'New Course' accord of 1993, this process resulted in unparalleled wage growth of 20–60 percent for international leaders and top managers.

According to the Dutch employers' association, self-regulation is the solution. In 2003 and 2004, they invited the Hay Group and Towers Perrin to study basic salary, actual and target bonuses, total cash and long-term compensation and concluded that on average these are well below international standards. However, after several accounting and share-option scandals in major companies, there were growing demands to improve corporate governance. In 2003, the Tabaksblat committee (chaired by a former company director) was established to study the principles of good corporate governance and best-practice provision, and recommended stricter control of company management and reward principles according to the 'comply or explain' principle. In 2004, these principles were given legal backing.

The new code of corporate governance has not ended the controversy: in 2005, the rewards of top management in utility companies and state welfare agencies were widely denounced as unacceptably high. Prime Minister Balkenende advocated 'naming and shaming' for this 'moral deficit', provoking indignation by the employers' associations, which claimed that the current corporate governance code allows such practices and accused

the government of undermining the Dutch entrepreneurial climate. We conclude that the absence of government steering in this example restricts the scope for regulation, both through normative considerations and because of corporate governance protocols which are backed by law.

When a policy problem and its solution are unclear and the external effects are substantial, a combination of adaptive and reflexive governance is demanded: *steering by comparison*. An application of this principle can be found in the area of childcare provision, which is now a target in the European employment strategy and a subject of the OMC (Rubery, 2005). This is an important employee benefit, and is crucial in a part-time economy such as the Netherlands, where hourly wages, employment conditions and social security provisions are similar for part-time and full-time workers. In 1990, a Stimulation Measure for Childcare was introduced, which defined the provision of these services as the joint responsibility of employers, employees and the state. In 1995, the government introduced the 'combination scenario' as the standard norm for social policy, according to which both men and women should be able to combine work and care equally (Bleijenbergh, 2004).

Under such conditions, childcare provisions cannot be left to the market alone, since the costs will be too extensive and quality standards cannot be guaranteed. Staff qualifications, safety standards, working conditions and the pedagogical regime for children must all be regulated. The interests of outsiders are thus important, though the ideal nature of the provision is unknown, given the different preferences of citizens during particular periods of their life cycle.

In 2005, the Childcare Act was changed, putting more financial responsibilities onto employers and individual employees. The first evaluation shows that since then, families have made less use of the available childcare facilities and that parents have looked for alternatives in their own extended network of relatives. Because of the exodus of clients, many nursery staff have been made redundant, and the human capital of employees who have withdrawn their labour supply is eroding. We thus believe that in this policy field, government steering can best take the form of systematic comparison and definition of minimal price and quality standards, with tax support for families with lower and medium incomes so as to guarantee wide access to this common good.

One area of policy that is potentially risky for employees is that of work and rest periods; here, *steering by procedure* is appropriate. The law protects employees against unhealthy and unsafe working hours, and adaptive governance therefore seems the most likely approach at first glance. However, the actual substance of the issue (how enterprises and their employees wish to, and do, deal with work and rest periods) depends on the preferences of those on the shop floor, which cannot be precisely grasped at central level.

For this reason the government, in its policy and legislation, deliberately pursued a strategy in the 1990s that allowed greater scope for decentralized consultation. Its purpose was to acknowledge that individual employees and enterprises had many different needs and preferences; the Labour Act (*Arbeidswet*, 1919) was therefore replaced by the Working Hours Act (*Arbeidstijdenwet*) in 1996 (Wilthagen, 1995). This provides for a relatively complex, dual-standard system: on some issues, it sets out fixed standards, while on others, it allows scope for consultation between employers and employees. The social partners at sectoral or enterprise level play a key role in this system: by concluding agreements on a particular policy cluster (working hours, night work, Sunday work, rest periods and breaks) the social partners make it possible for the employer and works council or other forms of employee representation to interpret the fixed standards within that cluster more loosely. The Labour Inspectorate is responsible for monitoring the most liberal statutory standards, while the social partners have a civil-law obligation to enforce the fixed standards themselves.

In this sense, the Working Hours Act is a good example of reflexive governance, although it has adaptive features. The law ensures that the standards for work and rest periods can be adapted to fit in with the outcome of consultation between the social partners at sector and enterprise level (reflexive element). The government, however, has set the bandwidth (adaptive element) in terms of basic protection norms. The step-by-step procedure (the bargaining partners must first state their views on a particular policy cluster, and only then do the individual employer and works council or employee representation join in) provides a coordinated approach to decentralization. The trade unions and employers' associations exercise control, and decentralization does not extend all the way down to the shop floor.

An evaluation of the Act (Mevissen et al., 2001) has shown that both the sectoral bargaining partners and employers and works councils or employee representatives at enterprise level were fairly conservative when it came to introducing more liberal working hours, making only limited use of the scope provided by the Act. This confirms that a large measure of self-imposed unanimity exists in sectors, despite growing diversity and the unmistakable signs of decentralization. While the study found that the Act did not give rise to major problems, it also revealed that works councils and employee representative bodies do not function as effectively as they might. Some employee representatives are poorly informed about the Act and also fail to look critically and proactively at management proposals. The representativeness of some employee bodies is questionable, and more than a third of employees surveyed complained about problems related to working hours at their company. However, as Tros (2002: 67) argues, correctly in our view, 'these problems

cannot . . . be solved by returning to uniformity and centralized control. In many cases, no practical alternative is available.'

In 2004, the government suggested extending weekly working hours. Using our own terminology of adaptive governance, the government could invite the social partners to advise on the results to be achieved through new regulation. In addition, it would do well to adhere even more closely to the basic principle of reflexive governance, and to encourage employees and their representatives to participate more actively in policy-making wherever possible. The government is currently also deliberating a much more radical deregulation of working hours, questioning more fundamentally its role in this area. The interesting question here is whether the government does indeed think it is safe to rely on subsidiarity or will more gradually increase the reflexive element of the regulation of working hours at the expense of the adaptive element.

## Conclusions

In this article, we have discussed the difficulties of socio-economic governance in a small, open and decentralized economy, which is facing a need for justification and accountability of its outcomes, while confronting the challenges of both internationalization and differentiation of decision-making. We have suggested that there are several coordination strategies that may keep governments and social partners on their toes, varying in their degree and type of coordination. In Dutch wage bargaining during the 'boom years', not many of our examples seem to have worked in a satisfactory way. Wages ran out of control while the means of social policy reform became highly contested; corporate governance failed to match international standards; childcare provision became unaffordable for many families; and protection through the revised working-hours regulation is again under debate. Complacency was probably the strongest attitude and instruments that worked in the past were not updated.

Yet under what theoretical preconditions can the four forms of government steering lead to more effective and legitimate outcomes? In all strategies, government steering includes a role for interest organizations in the field of industrial relations. In the extreme case of 'no steering', subsidiarity and full responsibility for social actors result, though also here the state may still engage in public campaigns (raising awareness), codes of conduct, distribution of information and monitoring. In the case of steering by comparison, adaptive target-setting (for example the Lisbon goals) will have to be combined with the procedural rules of the reflexive governance mode. For both alternatives, we will describe several 'productive constraints' (Streeck, 1992).



In an adaptive setting, when the objectives and solutions of government policy are known, the government can take effective action by providing guarantees of consistency, condition-setting, competency and consequences within an adaptive governance framework. This strategy is similar to the 'guidance, scope, results and accountability' (*'richting, ruimte, resultaat, rekenschap'*) approach suggested by the SCP (2001). Consistency relates to the clarity of the issue and the time-frame within which a solution must be found. Condition-setting indicates the criteria for judging whether a solution is acceptable or unacceptable. Competency means recognizing the parties capable of bearing a share of the responsibility for the development of a certain policy issue. Lastly, consequences refer to how the success or failure of a particular approach affects the parties involved.

If the nature of the issue and the potential solutions are not understood or are controversial, and the external effects are modest, the government may decide to invite social actors to define means and ends in more reflexive and experimental settings. This gives the individual parties more freedom to set their own policy targets, but at the same time, includes stricter demands on their external and internal representativeness and accountability. When the government steers by procedures, it must ensure that the parties involved are of a sufficient quality and that the decision-making process is not too non-committal and random in nature. The regulatory measures tend to focus on new civil liberties, equal treatment and anti-discrimination, guaranteeing the right to participate, individual rights (voucher systems or social drawing rights) and conflict management. The reflexive method puts priority on procedural justice, guaranteeing the participation and codetermination rights of interested parties, and setting up and monitoring conflict-management mechanisms. The emphasis is on the right of participation, empowerment, process monitoring and process conflict settlement. The concept of rights of participation considers which parties could play a major role in the decision-making process. Empowerment means that the parties are granted the resources which they need to do their work properly. Process monitoring means ensuring compliance with democratically legitimized decision-making rules. Lastly, process conflict settlement provides rules for resolving conflicts.

This brings us to the question of how other small, open economies with corporatist arrangements are responding to common challenges such as those discussed in this article. We suggest that our typology of participation in government steering may be helpful to evaluate the strategic response to both complex policy issues and the control of external effects. We suggest that actors in general, if strategies and instruments are carefully designed and monitoring is guaranteed, can experiment with these alternatives in order to increase their ability to learn to

coordinate their policies in an increasingly diverse and decentralized economy. Lastly, a state actor which is accepted, predictable and trustworthy, yet capable of creating a credible threat or ‘shadow of hierarchy’ for the social partners and their negotiations, is a crucial asset, especially in economies such as the Netherlands which combine collective with decentralized bargaining.

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